

Iowa Public Employees' Retirement System (IPERS)

Presentation to the
Administration and Regulation
Appropriations Subcommittee

January 28, 2003

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Table of Contents

	Page Number
Table of Contents	2
IPERS Contact information	3
 Overview of IPERS	
Organizational Charts	4
Vision, Core Purpose, Core Values	6
What is IPERS and what Services does IPERS provide?	7
Other IPERS facts	8
 IPERS Membership graphs	
Total membership and by employer groups	9
By occupation	10
Retirees by employer group	11
Growth of retired members	11
Growth in total members, retirees, and member demand	13
Key Member Service Challenges	14
Member Services Risk Management	15
 Economic Value of IPERS Benefit Payments to Iowa	
Graph of benefit payments inside versus outside Iowa	16
Map and list of benefit payments in Iowa by county	17
 Investment information	
Investment returns Fiscal Years 1981-2002	19
Historical investment return versus peers	20
Current funded status	21
National map and listing of ratio of assets versus liabilities	22
 Appendices	
A – Overall Role of the General Assembly and Governor for IPERS	26
B – Member Demand Measures for December 2002	27
C – Overview of preliminary Benefits Administration Benchmarking Report ...	31
D – Historical impacts on unfunded actuarial liability	35
E – IPERS Response to FY2002 Actuarial Valuation Report	37
F – Overview of IPERS, Family Protection Retirement Plan	42

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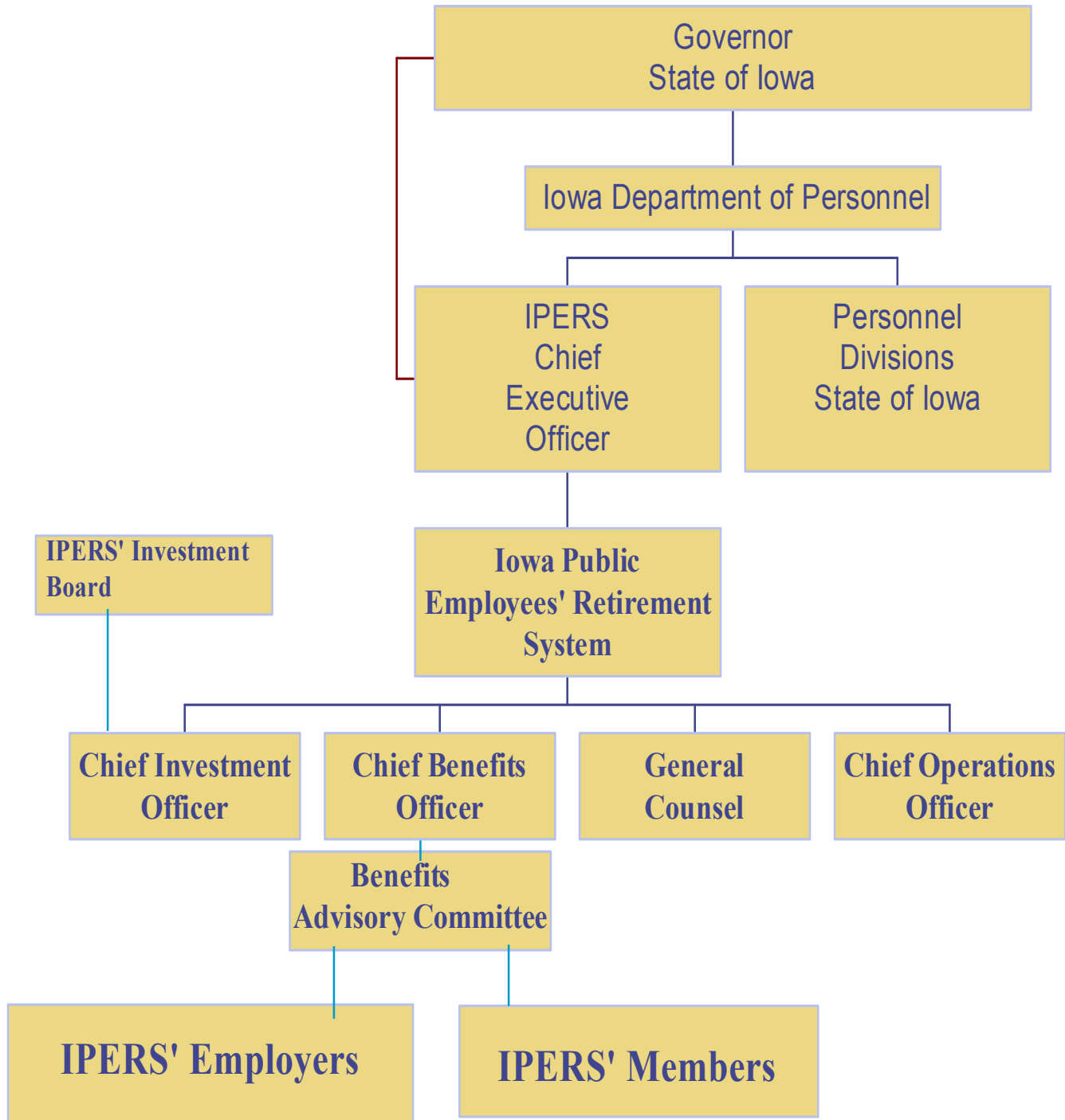
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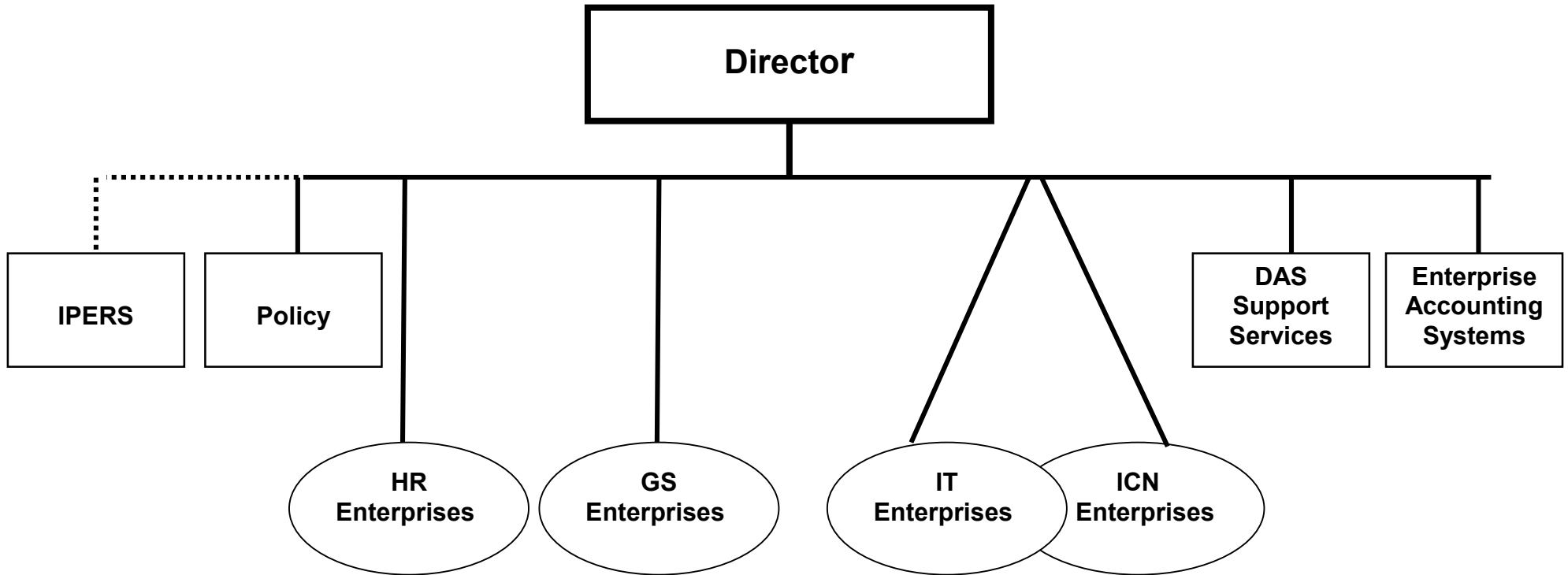
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IPERS Organizational Chart

28 January 2003



DEPARTMENT OF ADMINISTRATIVE SERVICES



1/27/2003

Vision, Core Purpose, and Core Values from IPERS 2002 Strategic Plan

Vision

- To be recognized as the best-administered public retirement system in the country, providing our members and beneficiaries valuable benefits and superior services.

Core Purpose

- To provide cost-effective and sufficient core retirement benefits and services exclusively to members and beneficiaries for their care in retirement, to reduce personnel turnover and to attract competent men and women to public service in the State of Iowa.

Core Values

- Members and public employers are the reason we exist, and providing the most efficient and effective services to our members and beneficiaries is our primary responsibility.
- Protection of member benefits and services are fundamental to all IPERS' operations.
- Independent responsible management of the trust fund for the exclusive benefit of our members and beneficiaries is our most important fiduciary responsibility and must not be compromised for political or operational expediency.
- Honesty and integrity shall prevail in our dealings with members, other stakeholders, and with our colleagues.
- Respect for staff guides our deliberations and we are committed to following the highest standards of professional conduct.

Overview of the Iowa Public Employees' Retirement System

What is IPERS?

- The Iowa Public Employees' Retirement System (IPERS) is the largest of the public pension systems within the State of Iowa.
- IPERS covers most of the public employees in Iowa. (The largest exceptions are certain members of the judiciary, and fire and police personnel in cities and towns above 8,000.)
- It is also the 61st largest pension fund (public and private) in the United States.
- As of June 30, 2002, its Trust Fund contained over \$14 billion.
- IPERS has over 328,800 members – more than 10% of the total population of Iowa.
- Of these, more than 72,000 are retired members of the System.
- IPERS has more than 2,400 participating employers, of whom 50% represent schools.

What Services Does IPERS Provide?

- Invests and safeguards over \$14 billion in assets for members' retirement, death and/or termination (refund) benefits.
- Pays over 2/3 of a billion dollars each year into Iowa's economy, principally in the form of retirement annuities and cost-of living distributions.
- Paid out \$739 million in pensions, death benefits, and refunds in Fiscal Year 2002.
- Collects over \$440 million in contributions from employers and employees annually, on a 60%-40% shared basis.
- Prepared 75,000 estimates of future retirement benefits, answered over 83,000 phone calls, processed 1,711 death benefits, and paid 6,600 refunds to members in Fiscal Year 2002.

Other IPERS' Facts

PURPOSE:

- IPERS exists – by federal and State statute – for “the exclusive benefit of its members and their beneficiaries.”

TRUST FUND:

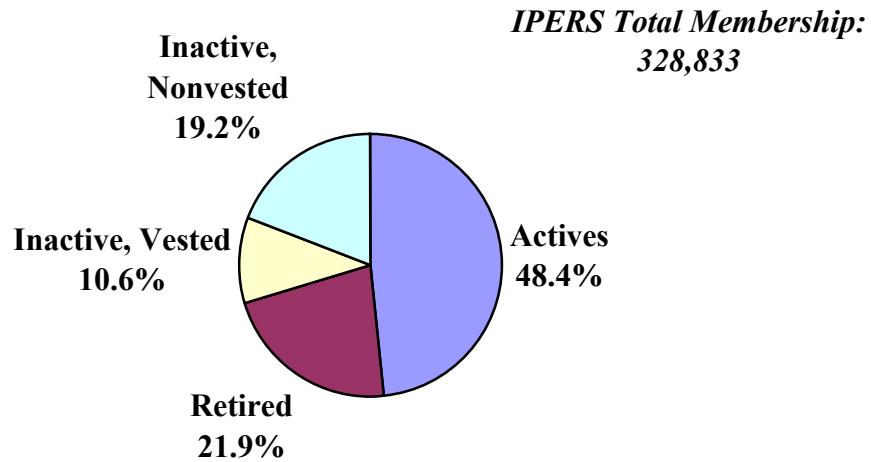
- The IPERS' Trust Fund is the *only* source of funds for all IPERS' expenses, including benefit payments, investment expenses and administrative expenses.
- About 10 years ago the State stopped paying IPERS an amount from the General Fund intended to covered the unfunded liability of pre-IPERS' retirees to whom IPERS provides monthly pensions.
- The Trust Fund consists of contributions from public employers and employees, plus investment assets.
- IPERS' executive staff, and its Investment Board, are fiduciaries.

IPERS' FUTURE:

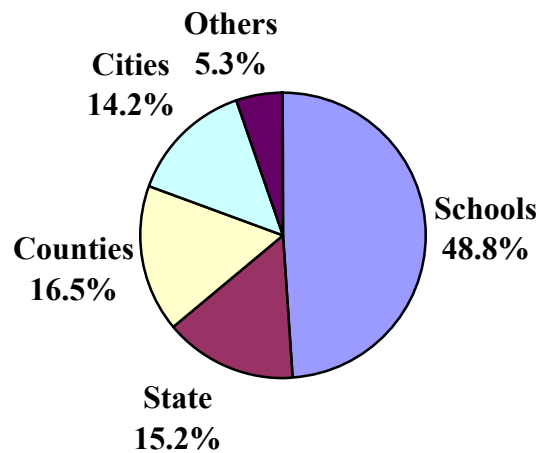
- By 2013, total retirees will have almost doubled to 123,000.
- By 2007-2008 IPERS' total annual payouts will range from \$1.2 to \$1.5 **billion**.
- The sizable “baby boom” segment of IPERS' membership is nearing, and beginning to enter, retirement. Member demands for improved and expanded services are predictably rising.

Depictions of IPERS' Membership

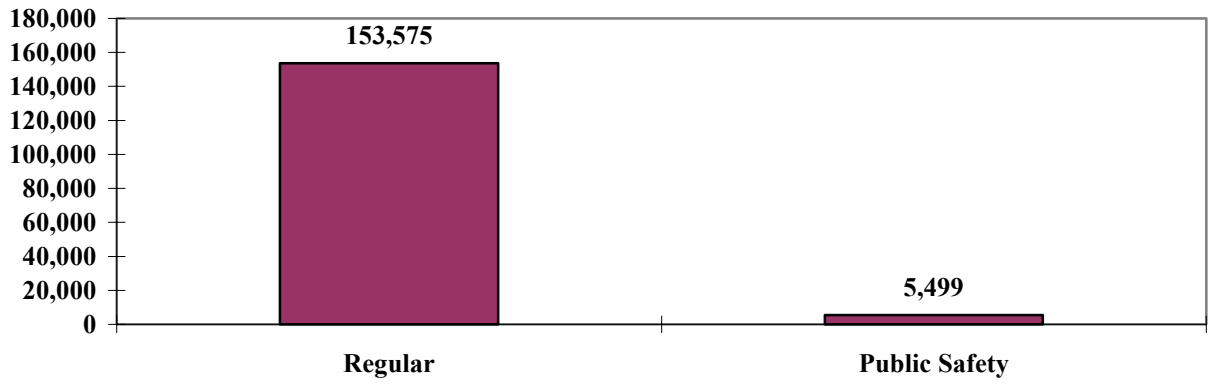
As of 30 June 2002



Active Members Grouped by Major Employers: 159,074 Persons



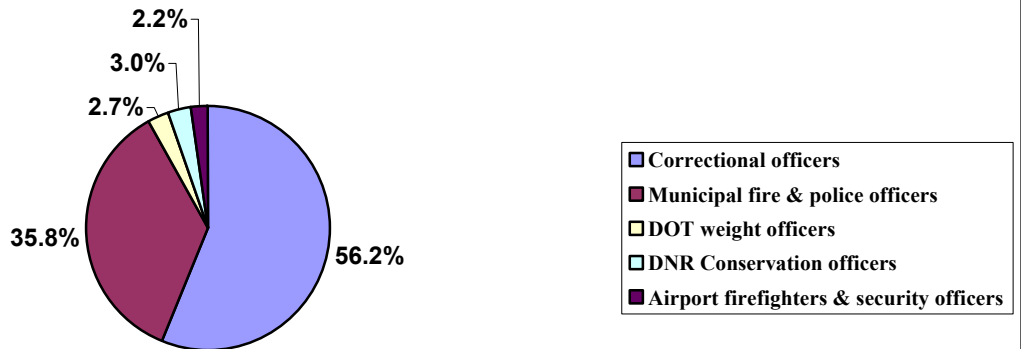
Profile of Active Members by Occupation



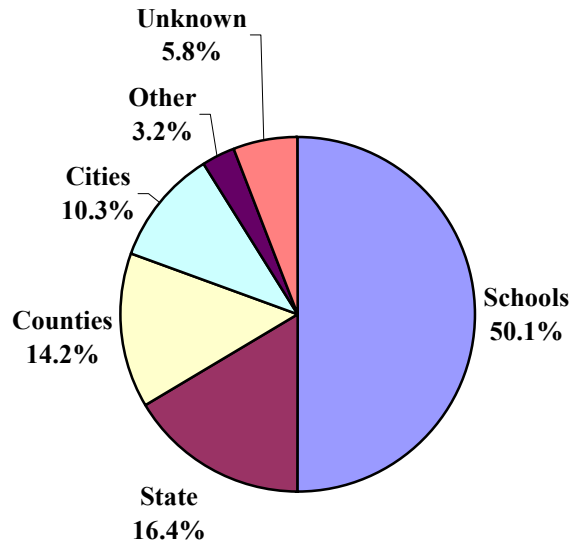
Public Safety Groups - 5,499 Members



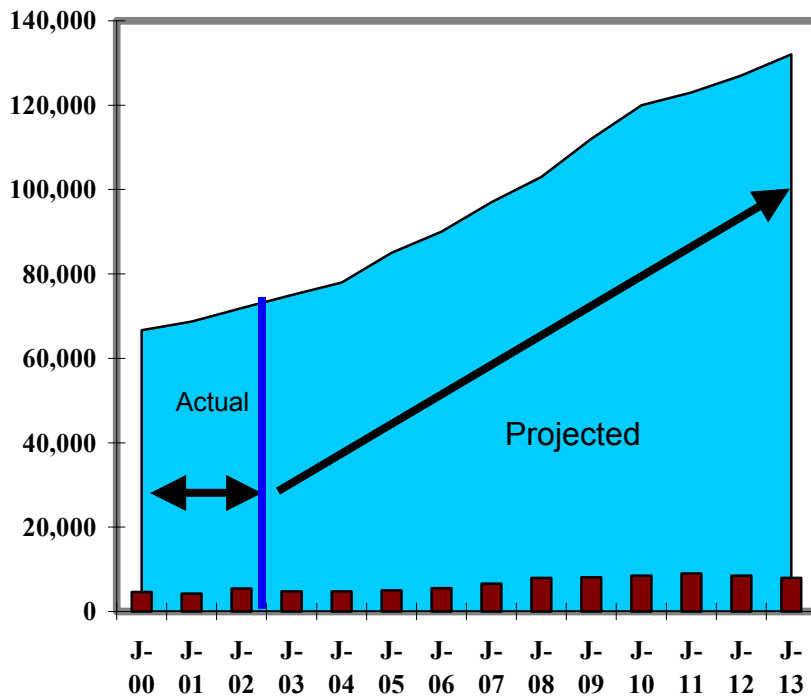
Protection Occupation Groups



All Retirees by Employer Group: 71,901



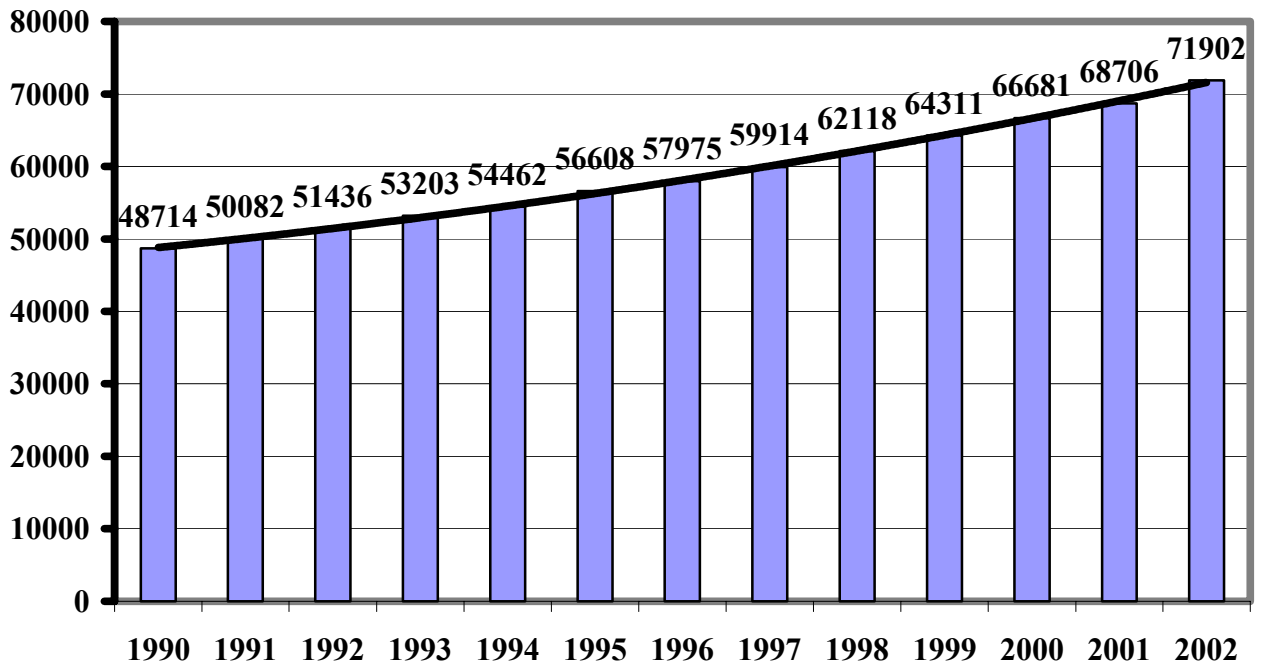
Growth in Retired Members



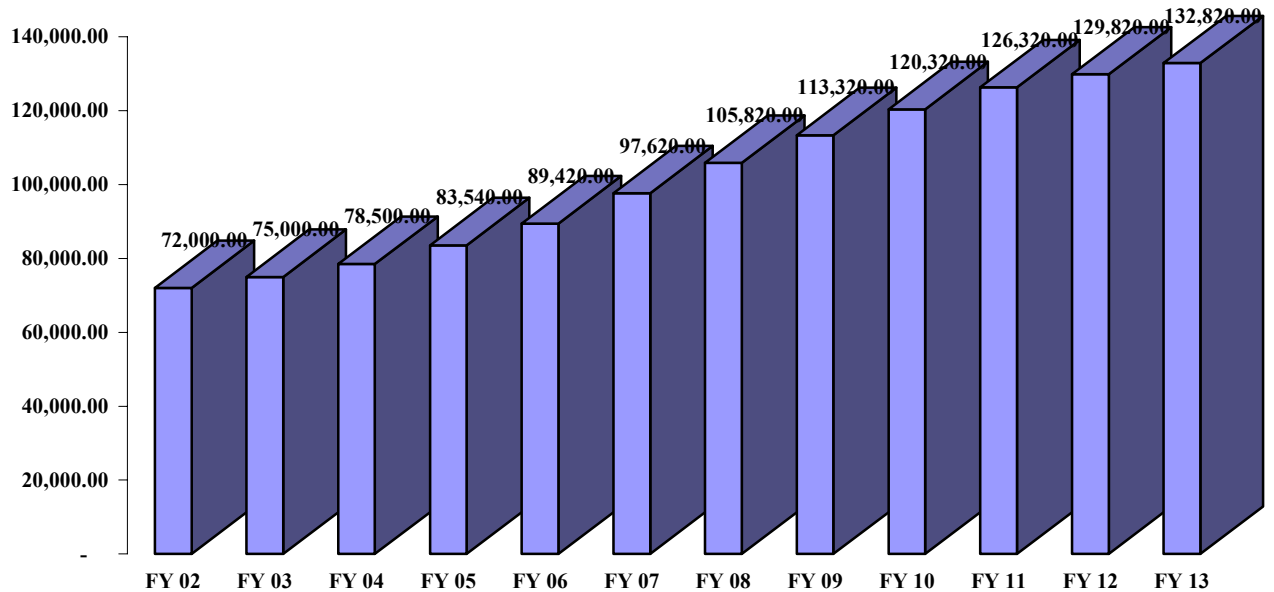
These are the members responsible for 85%- 90% of our total member demands.



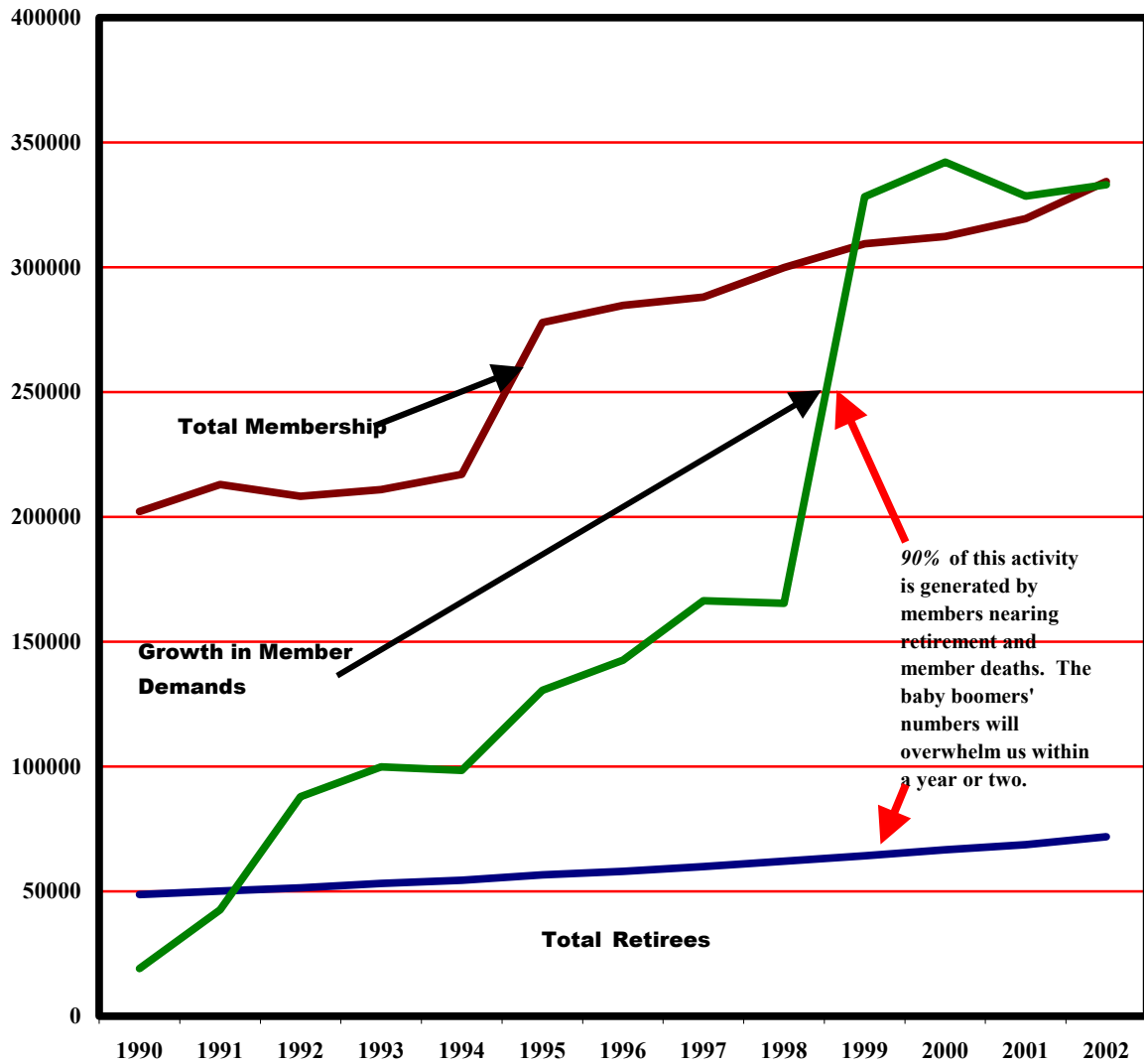
Growth in Retired Member Totals



Projected Total Retirees through FY 2013



Growth in Member Demands Upon Staff



Key Member Service Challenges Facing IPERS for the Foreseeable Future

- Coming wave of “baby boomer” retirements – their information demands are impacting us now; their retirements will begin by fiscal year 2007
- Heightened service expectations and demands of us by our active and retired members
- Increased inquiries from younger members
- Expanded services and benefits offered by IPERS mean greater complexity for both members and our staff
- Need for ever higher quality information and educational materials
- Continuing efforts within IPERS to clean up faulty data and duplicate crucial records
- Providing cooperative assistance in ongoing computer redesign efforts
- Struggling to meet surging demand while personnel resources lag behind needs

Risk Management from IPERS' Member Services Perspective

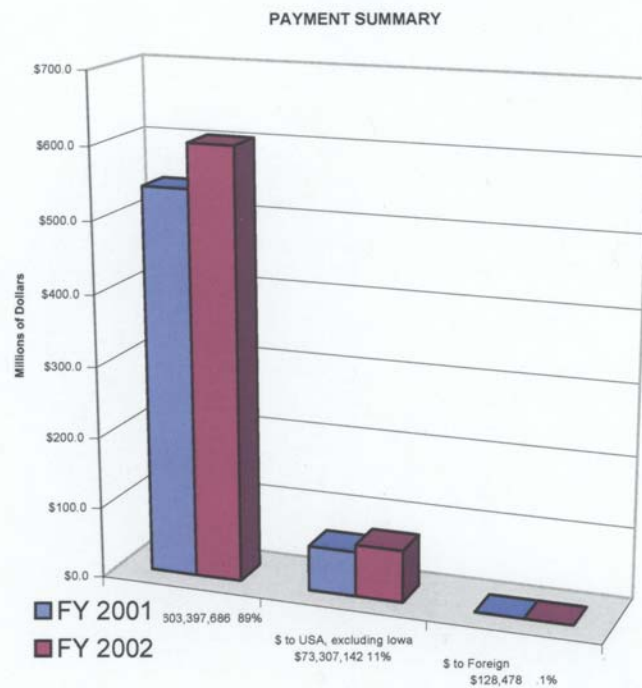
The risk of unfavorable press from members who expect IPERS to continue the high level of services we are providing is one thing. Obviously, as a member-oriented organization we find lessening the level of service to our members undesirable, especially as we by statute exist *for the exclusive benefit of our members and their beneficiaries*. They should continue to receive the service level they expect from us. This is certainly an aspect of IPERS our members would not like to see compromised. But we also have risks which are even more closely associated with our *fiduciary obligations*, and among the most serious of these are:

1. The need to have a computer system with both the capacity, and flexibility, to handle member and staff demands at a time of significantly expanding numbers of retirees, heavy pre-retirement demands, and increased complexity due to federal and state law changes.
2. The need to adequately train – and monitor the performance of – the 2,400 employers who report critical member data to us on an ongoing basis. Our existing staffing is inadequate to perform sufficient training and an acceptable number of compliance audits annually. At current staffing levels, IPERS is subject to unacceptable risk. IPERS is the responsible party, in the eyes of the Internal Revenue Service, should gross reporting violations by an employer be found and/or individuals suffer losses resulting from inadequate reporting or failure to be granted IPERS' coverage.
3. The need to be able to provide our members and participating employers with basic services, such as updated copies of core plan documents, current handbooks and, in the case of members, timely statements of account values and retirement benefit estimates, as well as claim forms to designated beneficiaries and contingent annuitants of recently deceased members. IPERS' staff is currently able to “just keep up” with the demand. As those demands rise – and they inevitably will in the next couple of years – our ability to respond will diminish.
4. The need to be able to give sufficient time to studying member files in order that: a) correct processing or calculations take place; and b) members receive accurate, appropriate, and advice tailored to their own specific situations. As the pressures of growing numbers of members escalates staff tension amidst their efforts to respond in a timely and helpful manner, the risk of either “a” or “b” above being compromised grows significantly. The result will be increased member dissatisfaction, growing member complaints, and potentially costly benefit errors.

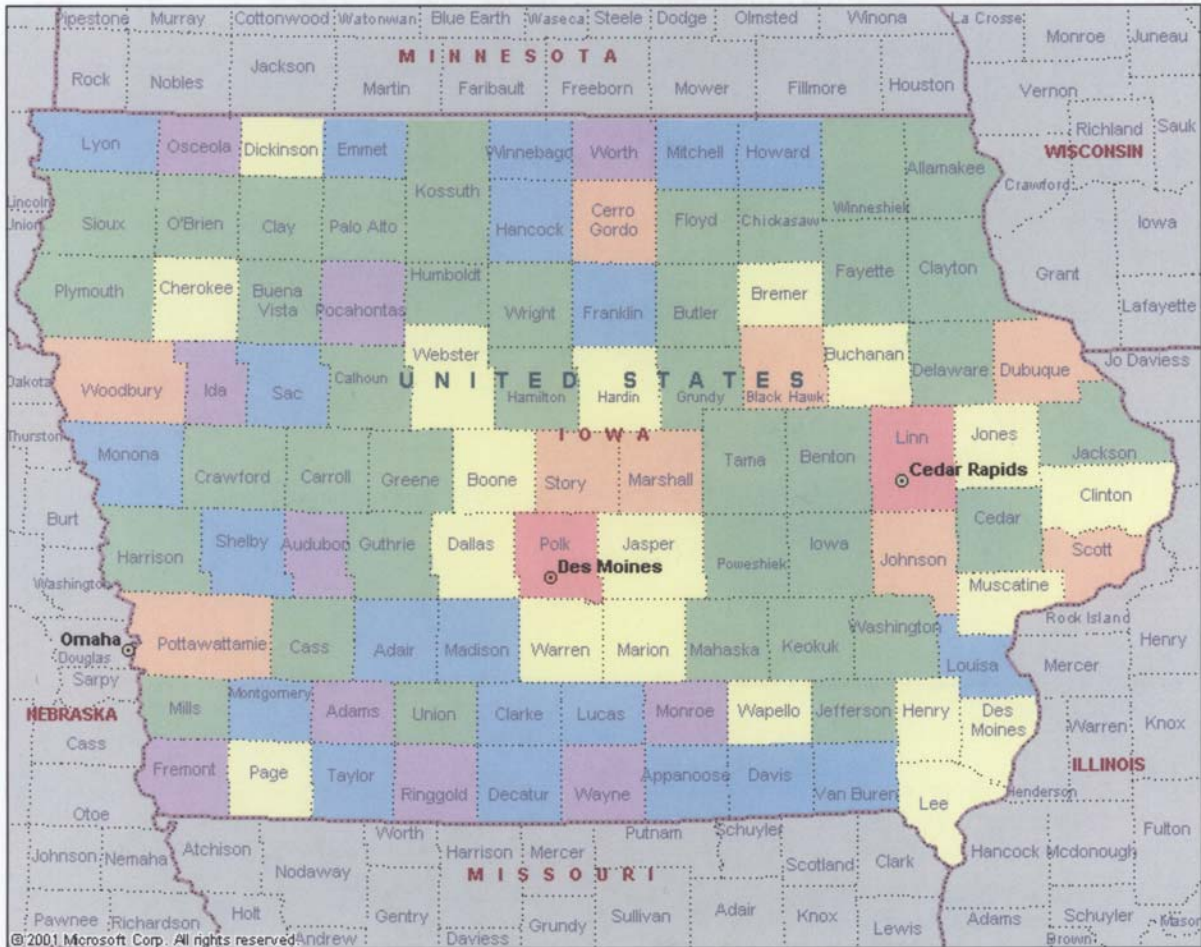
In each of these areas, a failure to maintain minimally acceptable member service levels places us at grave risk for potentially costly data errors and legal action.

Economic Value of IPERS Benefit Payments

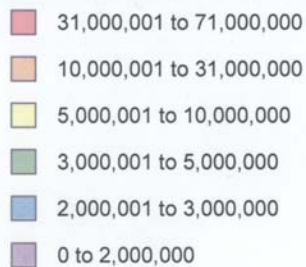
Payments made in Iowa
versus outside Iowa



FY02 Total Payments by County



Total Payments by County

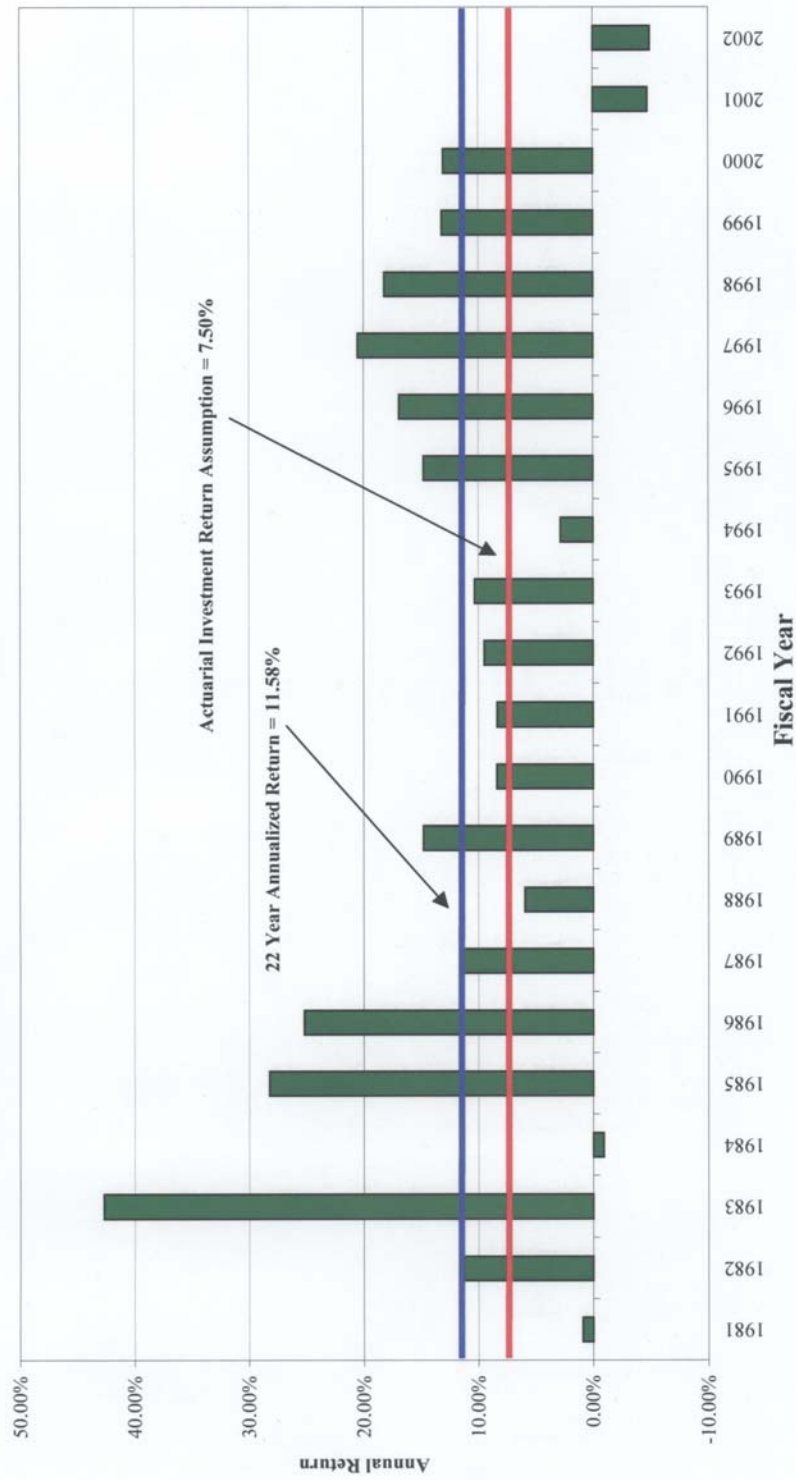


**Distribution of IPERS Benefit Payments in Iowa Counties
as of June 30, 2002**

COUNTY	AMOUNT	AVERAGE	PAYEES	COUNTY	AMOUNT	AVERAGE	PAYEES
Adair	\$ 2,202,269	\$ 8,342	264	Jefferson	\$ 3,551,571	\$ 9,446	376
Adams	1,195,393	7,201	166	Johnson	13,821,520	8,731	1583
Allamakee	3,551,134	9,036	393	Jones	5,084,564	9,722	523
Appanoose	2,710,674	7,926	342	Keokuk	3,021,773	8,211	368
Audubon	1,645,455	7,346	224	Kossuth	3,477,134	8,543	407
Benton	4,373,342	7,754	564	Lee	7,881,662	10,066	783
Black Hawk	24,572,867	9,636	2550	Linn	35,133,192	10,614	3310
Boone	7,505,558	8,903	843	Louisa	2,743,497	9,269	296
Bremer	5,271,682	8,845	596	Lucas	2,410,437	7,877	306
Buchanan	6,341,434	9,085	698	Lyon	2,017,706	8,442	239
Buena Vista	4,339,462	8,644	502	Madison	2,906,495	8,625	337
Butler	3,363,060	7,988	421	Mahaska	4,399,261	8,887	495
Calhoun	3,266,574	8,291	394	Marion	5,330,676	8,855	602
Carroll	3,455,774	8,112	426	Marshall	10,290,141	9,163	1123
Cass	4,152,509	8,873	468	Mills	4,348,525	8,645	503
Cedar	3,669,622	8,950	410	Mitchell	2,912,210	8,565	340
Cerro Gordo	11,622,330	10,267	1132	Monona	2,622,224	8,626	304
Cherokee	5,012,705	9,081	552	Monroe	1,887,248	7,549	250
Chickasaw	3,261,486	9,824	332	Montgomery	2,896,543	7,643	379
Clarke	2,011,392	7,562	266	Muscatine	6,971,077	8,858	787
Clay	3,984,410	8,738	456	O'Brien	3,406,232	8,091	421
Clayton	4,399,986	8,397	524	Osceola	1,137,405	7,153	159
Clinton	8,617,223	9,377	919	Page	5,237,544	8,744	599
Crawford	4,234,789	8,822	480	Palo Alto	3,199,530	8,332	384
Dallas	7,946,247	8,665	917	Plymouth	4,645,664	8,765	530
Davis	2,135,085	7,680	278	Pocahontas	1,901,990	8,306	229
Decatur	2,182,726	7,374	296	Polk	70,072,722	10,234	6847
Delaware	4,106,740	9,026	455	Pottawattamie	13,043,257	9,277	1406
Des Moines	9,163,852	10,182	900	Poweshiek	3,944,822	9,132	432
Dickinson	6,214,253	10,605	586	Ringgold	1,882,895	8,047	234
Dubuque	12,379,817	9,694	1277	Sac	2,382,911	7,712	309
Emmet	2,734,202	9,237	296	Scott	24,772,946	11,225	2207
Fayette	4,928,875	8,587	574	Shelby	2,962,214	8,463	350
Floyd	4,426,382	9,127	485	Sioux	4,365,904	7,909	552
Franklin	2,561,233	8,235	311	Story	20,066,714	10,600	1893
Fremont	1,897,527	7,714	246	Tama	4,127,739	9,013	458
Greene	3,005,655	7,533	399	Taylor	2,027,131	8,174	248
Grundy	3,297,282	8,433	391	Union	3,778,022	8,160	463
Guthrie	3,618,556	8,636	419	Van Buren	2,629,333	8,268	318
Hamilton	4,970,501	9,862	504	Wapello	8,688,939	9,580	907
Hancock	2,738,361	8,891	308	Warren	8,948,917	9,812	912
Hardin	6,362,695	9,000	707	Washington	4,690,864	7,766	604
Harrison	3,154,778	8,216	384	Wayne	1,915,294	7,310	262
Henry	5,087,581	8,787	579	Webster	8,378,811	8,952	936
Howard	2,702,670	8,979	301	Winnebago	2,608,593	8,695	300
Humboldt	3,254,656	8,702	374	Winneshiek	4,464,860	8,966	498
Ida	1,498,980	7,848	191	Woodbury	19,192,598	10,728	1789
Iowa	3,014,218	8,213	367	Worth	1,812,078	8,754	207
Jackson	3,977,746	8,357	476	Wright	3,725,359	8,604	433
Jasper	7,557,194	9,273	815				

Total Iowa Benefit Payments \$603,397,686

IPERS' Fiscal Year Investment Returns 1981 - 2002



ANNUALIZED RETURNS*

1-Year Return: -4.94%	10-Year Return: 9.64%
3-Year Return: 0.79%	15-Year Return: 9.55%
5-Year Return: 6.48%	20-Year Return: 12.16%

* For periods ending 6/30/02

Investment Return Peer Universe Rankings

Periods Ending June 30, 2002, All Returns Annualized

IPERS' investment returns have ranked in the top quartile of public pension funds for 1, 3 and 5-year periods, and in the second quartile (above median) for the 10-year period.

Survey Source	Number Participating Public Pension Funds		One Year	Three Years	Five Years	Ten Years
IPERS' Return	NA		-4.9%	0.8%	6.5%	9.6%
Pension Fund Data Exchange, Inc.	64	Top Quartile	-4.9%	0.7%	5.8%	9.7%
		2 nd Quartile	-6.1%	-0.7%	5.3%	9.1%
Trust Universe Comparison Service: Public Funds > \$1 Billion	32	Top Quartile	-5.0%	0.5%	5.9%	9.8%
		2 nd Quartile	-5.8%	0.4%	5.1%	9.8%

IPERS' Funded Status

Key Actuarial Measures per IPERS' Actuarial Consultant (Milliman, USA)

	FY 1996*	FY 1997	FY 1998*	FY 1999**	FY2000*	FY2001	FY2002*	% Change FY'01- FY'02
Portfolio Market Value***	\$9.57 B	\$11.52 B	\$13.68 B	\$15.30 B	\$17.13 B	\$15.91 B	\$14.85 B	-6.7%
Actuarial Assets (AA)	\$8.98 B	\$10.11 B	\$11.35 B	\$12.65 B	\$14.15 B	\$15.11 B	\$15.61 B	3.3%
Actuarial Liabilities (AL)	\$10.14 B	\$10.77 B	\$11.91 B	\$13.05 B	\$14.47 B	\$15.55 B	\$16.87 B	8.5%
Funded Ratio (AA/AL)	88.5%	93.9%	95.3%	97.0%	97.7%	97.2%	92.6%	-4.7%
Unfunded Actuarial Liability (UAL)	\$1.16 B	\$ 661 M	\$555 M	\$390 M	\$327 M	\$441 M	\$1.26 B	184.6%
UAL as % of Total Liabilities	11.5%	6.1%	4.7%	3.0%	2.3%	2.8%	7.4%	164.3%
Years to Amortize UAL	20 Years	9 Years	8 Years	20 Years	21 Years	39 Years	Infinite	NA
Normal Cost Rate	7.29%	7.26%	7.63%	8.79%	8.95%	8.93%	9.03%	1.1%

* Legislative sessions during which IPERS benefit enhancements were enacted.

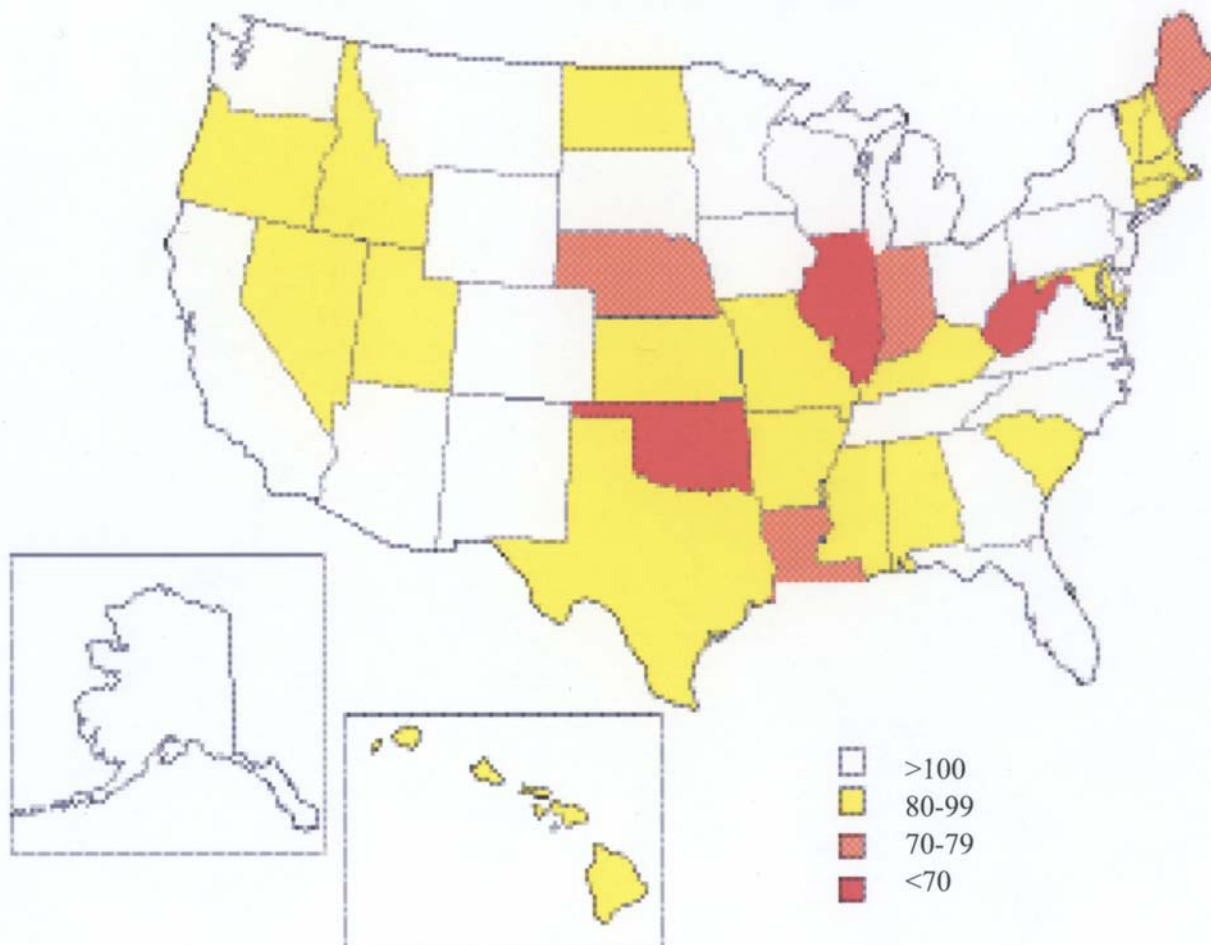
**Results of a five-year actuarial experience study were applied in FY '99 valuation, adding \$587 million to liabilities.

***Investment portfolio assets only; excludes IPERS' fixed assets. Portfolio market value impacted not only by investment returns, but by cash drawdowns to pay benefits.

NOTE: Prior to FY '96, IPERS' actuarial methods did not produce Funded Ratios, UALs or Years to Amortize UAL.


Public Pension Systems' Asset Market Value as % of Liabilities

Source: Wilshire 2002 Report on State Retirement Systems



Public Pension Systems' Assets vs. Liabilities

Source: Wilshire 2002 Report on State Retirement Systems

<u>Retirement System</u>	<u>Ratio: Assets (at Market Value) to Liabilities</u>	<u>Rank Out of 93 Systems</u>	<u>Assets (millions) Minus Liabilities</u>	<u>Rank Out of 93 Systems</u>
Florida RS	1.40	1	\$27,566	2
Arizona SRS	1.36	2	6,088	10
New Jersey PERS	1.35	3	7,412	9
Pennsylvania Teachers	1.34	4	13,539	6
Georgia PERS	1.34	5	3,297	14
New Jersey State Police	1.33	6	497	32
New York Teachers	1.33	7	22,045	3
North Carolina PERS	1.30	8	10,790	7
New Jersey Teachers	1.29	9	8,003	8
Texas LECOSRF	1.28	10	153	39
California PERS	1.27	11	36,737	1
Wisconsin RS	1.26	12	13,586	5
Montana PERS	1.23	13	643	29
Wyoming RS	1.21	14	840	25
California Teachers	1.21	15	19,658	4
Alaska PERS	1.21	16	1,082	22
Georgia Teachers	1.20	17	6,932	11
Texas ERS	1.20	18	3,291	15
Michigan SERS	1.20	19	1,891	19
Michigan Police	1.17	20	172	38
Virginia RS	1.16	21	5,621	12
New Jersey Police & Fire	1.15	22	2,520	18
Kentucky Counties	1.14	23	709	28
North Dakota PERS	1.12	24	127	41
Delaware PERS	1.12	25	541	30
Indiana PERS	1.11	26	838	26
Ohio PERS	1.10	27	3,729	13
Washington PERS 2	1.09	28	1,059	23
Michigan Teachers	1.09	29	3,173	16
Alaska Teachers	1.08	30	275	34
Tennessee SETHEPP	1.08	31	1,446	21
Colorado State & School	1.07	32	1,806	20
Alabama ERS	1.07	33	499	31
South Dakota PERS	1.05	34	252	36
Pennsylvania PERS	1.04	35	1,047	24
Indiana Police and Fire	1.04	36	51	46
Washington Teachers 2	1.03	37	98	43
Minnesota SRS	1.03	38	242	37
New York PERS	1.03	39	2,988	17
 Iowa PERS	1.02	40	376	33
New York Police & Fire	1.02	41	261	35
New Mexico PERA	1.01	42	116	42

	Ratio: Assets (at Market Value) to	Rank Out of 93	Assets (millions) Minus	Rank Out of 93
<u>Retirement System</u>	<u>Liabilities</u>	<u>Systems</u>	<u>Liabilities</u>	<u>Systems</u>
Connecticut Teachers	1.01	43	151	40
Kentucky PERS	1.01	44	70	45
New Mexico Teachers	1.01	45	79	44
Arkansas Teachers	1.00	46	1	47
Minnesota Teachers	1.00	47	-2	48
Missouri School-Other	0.98	48	-26	49
South Carolina Police	0.97	49	-53	51
Washington PERS 1	0.97	50	-333	57
Vermont PERS	0.96	51	-51	50
Idaho PERS	0.95	52	-353	58
Missouri Teachers	0.95	53	-1,098	70
Massachusetts PERS	0.95	54	-784	63
New Hampshire Teachers	0.95	55	-80	52
Washington Teachers 1	0.94	56	-527	62
Texas Teachers	0.94	57	-4,789	88
Maryland PERS	0.93	58	-816	64
Utah Non-contributory	0.92	59	-818	65
Alabama Teachers	0.92	60	-1,424	72
Vermont Teachers	0.91	61	-115	53
DC Teachers	0.91	62	-74	27
Montana Teachers	0.90	63	-264	55
South Carolina RS	0.90	64	-2,007	77
Arkansas Teachers	0.89	65	-918	68
Ohio Teachers	0.89	66	-991	69
Maryland Teachers	0.88	67	-2,370	79
North Dakota Teachers	0.88	68	-177	54
Oregon PERS	0.87	69	-5,378	90
Kansas PERS	0.87	70	-1,475	74
DC PERS	0.86	71	-155	86
Missouri PERS	0.86	72	-863	66
Kentucky Teachers	0.85	73	-2,132	78
West Virginia PERS	0.84	74	-497	61
Hawaii ERS	0.83	75	-1,746	76
Rhode Island ERS	0.83	76	-472	60
Mississippi PERS	0.82	77	-3,309	84
Maine PERS	0.82	78	-470	59
Massachusetts Teachers	0.82	79	-3,249	82
New Hampshire PERS	0.81	80	-312	56
Nevada PERS	0.80	81	-3,291	83
Rhode Island Teachers	0.78	82	-907	67
Oklahoma PERS	0.78	83	-1,375	71
Louisiana Teachers	0.77	84	-3,535	85
Nebraska RS	0.76	85	-1,426	73
Connecticut PERS	0.72	86	-3,228	81

Retirement System	Ratio:Assets (at Market Value) to <u>Liabilities</u>	Rank Out of 93 <u>Systems</u>	Assets (millions) Minus <u>Liabilities</u>	Rank Out of 93 <u>Systems</u>
Louisiana PERS	0.70	87	-2,569	80
Maine Teachers	0.66	88	-1,621	75
Illinois PERS	0.64	89	-4,967	89
Illinois Teachers	0.60	90	-15,851	93
Oklahoma Teachers	0.52	91	-\$5,541	91
Indiana Teachers	0.43	92	-7,537	92
West Virginia Teachers	0.21	93	-4,098	87
Totals	0.99 (Avg.)		\$118,223 (Sum)	

NOTE:

Source report reflects the most recent asset and liability data available to Wilshire Associates at time of publication (August 12, 2002). Variances in participating pension funds' actuarial valuation schedules and time lags in reporting are reflected in the data above and table below:

<u>Valuation Date</u>	<u>% of Systems</u>
After June 30, 2001	3%
June 30, 2001	42%
Between June 30, 2000-2001	12%
June 30, 2000	29%
Before June 30, 2000	<u>14%</u>
	100%

Appendix A

The Overall Role of the General Assembly and Governor for IPERS

The Iowa General Assembly, with the Governor, serves as the Plan Sponsor for IPERS.

1. **Plan Sponsor.** The Legislature and the Governor are legally defined as the plan sponsor for IPERS. This means that they were the entities that first created IPERS. The plan sponsor role is to set the plan design, benefits levels, and overall governance of the system. They also have a responsibility to provide leadership and direction for overall public pension policy. This would include the type and characteristics of pension systems available to public employees and employers. The plan sponsor does not have a fiduciary responsibility in the direct administration of the system. In effect, it is best to think of the plan sponsor as the architect of the system.

The Governor serves as the Plan Administrator for IPERS.

2. **Plan Administrator.** Under the current structure of IPERS, the Governor has played a role as the Plan Administrator for IPERS. The Plan Administrator is defined as the entity that takes the system created by the Plan Sponsor and then administers that system. Further, the plan administrator is bound by the exclusive benefit rule, which states that the system shall be administered “for the exclusive benefit of the members and their beneficiaries of the system”. Under the current structure, the Governor, through his control of the executive branch of state government, has administered IPERS. The IPERS Investment Board has a role to play in administering the Investment functions of IPERS and the Benefits Advisory Committee can suggest ways to administer the benefits component of IPERS. But it is the Governor that currently has ultimate operational, budget, staffing, and administrative control of IPERS.

Legislative Committees that deal with IPERS issues

1. **Joint Subcommittee on Public Pensions of the House and Senate State Government Committees.** This subcommittee has traditionally served as the vehicle for all programmatic changes to IPERS. Every other year in years ending with an even number is considered an “IPERS year”. In those years, legislative changes to IPERS are typically considered.
2. **Joint Administration and Regulation Appropriations Subcommittee.** Historically, this subcommittee has handled an annual request for appropriations from the IPERS Trust Fund for the administrative and staff expenses of IPERS.

Appendix B

Member Demand Measures for December 2002

**Iowa Public Employees' Retirement System (IPERS)
Retirement Benefits'**

MEMBER DEMAND MEASURES FOR DECEMBER 2002*

**Greg Cusack, Chief Benefits Officer
Coordinator**

Dave Martin, Staff

<u>Member Demand Measures</u>	<u>Current Month</u>	<u>Fiscal Year To Date</u>	<u>Same Month Last Year</u>	<u>2002 Fiscal Year to Date</u>
<i>Benefits Counseling</i>				
Number of persons receiving pre-retirement counseling at IPERS' office	292	1,602	385	1,769
Number of persons receiving pre-retirement counseling throughout the State	92	2,896	147	2,988
Number of estimates prepared	7,841	36,187	5,178	36,960
Number of new retirees added to payroll	165	2,118	147	2,397
<i>Death Benefits</i>				
Number of reported deaths	267	1,538	301	1,555
Amount paid in IPERS death benefits	\$ 893,938.12	\$7,362,408.51	\$1,506,605.83	\$16,370,938.38
Number of beneficiaries paid	143	763	91	1,003
<i>Retirement Benefits</i>				
<i>Amount paid in IPERS retirement benefits</i>	\$55,149,770.19	\$350,381,899.10 ¹	\$48,623,002.97	\$313,028,894.11 ²
Number of IPERS retirees	72,936	70,022	
Net gain over previous month	- 19		- 22	
Average monthly benefit/ annual equivalent	\$756.14	\$9,073.68 ³	\$694.40	\$8,332.80 ⁴
<i>Refunds</i>				
IPERS Refund Requests paid	171	2,799	649	3,775
Total Paid as Refunds		\$ 18,761,399.89	\$ 1,552,043.96	\$ 17,842,788.93
(Supplementary Refunds)	\$1,053,660.45	\$ 329,671.69	\$ 156,101.59	\$ 351,118.46
	\$			
	167,441.04			
Average Refund paid	\$ 6,161.75	\$ 6,702.89	\$ 2,391.44	\$ 4,726.57

¹ Includes \$20,834,465.62 paid as the *November dividend* to 26,109 members who retired prior to July 1990.

² Includes \$22,284,856.73 paid as the *November dividend* to 27,864 members who retired prior to July 1990.

³ Excluding *dividend* distributions.

⁴ Excluding *dividend* distributions.

Service Purchases (Buy-in and Buy-Backs)

Applications for service purchases	232	1,499	352	1,374
Paid Service Purchases	184	644	52	378
Totals paid in Service Purchases	\$ 1,419,246.75 ⁵	\$ 5,305,459.49	\$ 327,032.00	\$1,962,032.99
Average Service Purchase	\$ 7,713.30	\$ 8,238.29	\$ 6,289.08	\$ 5,190.56

Miscellaneous Information

Phone calls logged by staff	8,623	38,869	5,907	36,960
Employer/Employee contributions	\$42,531,185.17	\$234,752,771.44	\$40,383,504.81	\$234,283,888.70
Notices Sent to Terminating Employees	231	3,000	261	3,027
Statement of Account Requests	1,480	8,795	889	12,300
Outside of Office Presentations	4	31	7	50
Outside of Office Attendees	135	1,006	294	1,255
Actuarial Equivalent Claimants	47	470	55	544
Gross Actuarial Equivalent Totals Paid	\$ 71,921.78	\$ 689,288.49	\$ 92,813.49	\$ 500,519.48
Beneficiary Forms & Form Changes	1,766	14,140	1,484	15,930
Age 70 Notifications	0	1,144	0	2,511
Retirees with Adjustments	292	30,075	239	31,080
Amount of Retired Re-Employed Refunds	\$ 28,097.94	\$ 346,148.79	\$ 29,793.65	\$ 416,135.56
Number of Retired Re-Employed Refunds	11	151	8	159
Number of Accounts Verified	501	4,537	522	4,843
Number of E-mails Received	113	1,184	257	1,453

* These numbers are on a cash, and not accrual basis. The latter are reported in our annual report for each fiscal year.

Observations

1. **Counseling and Retirements:** *Total members counseled is about the same as last YTD, while new retirees are down 12%. [We have been expecting new retirements to be less this year compared to last, as last year saw waves of downsizing and early retirement incentives, especially at the State level. Evidence elsewhere in our data suggests that a great many senior people, with higher salaries and many years of service, took retirement in FY 2002.] Both our estimate request numbers (same as last year) and our incoming phone calls (up 5%) continue to support our belief that the “baby boomers” are preparing for, and beginning to enter, retirement.*
2. **Terminations and Refunds:** *We have sent the same number of notice of options to persons who are terminating YTD, even though refunds are down 26%. This is in line with our actuary’s observation in her 2002 Experience Study that more terminated members are choosing to keep their money in IPERS as: a) a significant number of them have relatively high years of service and, therefore, have accrued a good benefit under IPERS; and b) more of them value the guaranteed lifetime benefit this accrued value*

⁵ Effective July 1, 2002, members were allowed to: a) Purchase up to 5 years of “private employment” eligible time; and b) to do so by “rolling over” amounts from other tax-qualified vehicles, such as IRAs, deferred compensation accounts, or other pension plans.

represents. However, for those refunds that are being taken, the average refund value is up strikingly from \$4,726 a year ago to \$6,702 this year (an increase of 42%!).

3. **Death Benefits:** *While the number of reported deaths is flat YTD, the number of death benefit lump-sum payouts is only 45% of last year's level. We believe this is because last year marked the first year of the new, enhanced death benefit option and many people had delayed their payment request until July 1 in order to collect this higher amount. [Please note that persons who choose the lifetime annuity option in lieu of a lump sum payment are not included in this account; rather, they become part of the retirement benefit monthly payout numbers.]*
4. **Retirement Benefits:** *The number of total retirees has increased 4% to 72,936, the average benefit paid is up a significant 9% over last year (to \$9,073), and the total monthly benefits paid out has increased 12%! As our demographic study for the year ended June 30, 2002 illustrates, last year's "flushing efforts" by employers, especially at the State level, resulted in a large number of very senior employees leaving government service. These are precisely the persons who, because of relatively high salaries at the end of long careers, have accumulated the largest accrued benefit. While we expect average pensions to continue increasing, and the total amount paid as pensions to keep pace, the degree of increase seen this year is likely atypical.*
5. **Employer-Employee Contributions:** *This important income stream is flat YTD compared to last year, and is up only 469 k for the YTD.*
6. **Service Purchases:** *Effective July 1, 2002, members had expanded service purchase options and the new ability to roll into IPERS dollars they had saved in other tax-qualified plan vehicles, such as deferred compensation plans and individual retirement accounts. We expected these twin occurrences to significantly increase the numbers of persons interested in, and actually completing, service purchases in IPERS. Inquiries are up 9% and purchases 70%, while the actual ratio of purchase to inquiry is up from 37% last year to 43% this year. The total dollars paid for these service purchases is up a whopping 170% so far, and means the average purchase completed this year cost the member \$8,238 versus \$5,190 last year.*

Greg Cusack,
Chief Benefits
Officer
Tuesday, January
28, 2003

Appendix C

Overview of Preliminary Benefits Administration Benchmarking Report **from Cost Effectiveness Measurement, Inc.**

As long-time members of this subcommittee know, we at IPERS take our commitment to all of our members and participating employers very seriously. We have for many years tracked both *member demand measures* (what our members ask of us) as well as the *quality and timeliness* of our responses and basic services. We know we run a good program, but we are always conscious of costs and of ways to provide higher quality services.

We are currently participating, for the first time, in a national benchmarking effort with Cost Effectiveness Measurement, Inc (CEM). Their focus is our basic benefits administration services and costs; they will be measuring, and comparing, our services and costs to those of our national peers -- other major public pension plans throughout the United States.

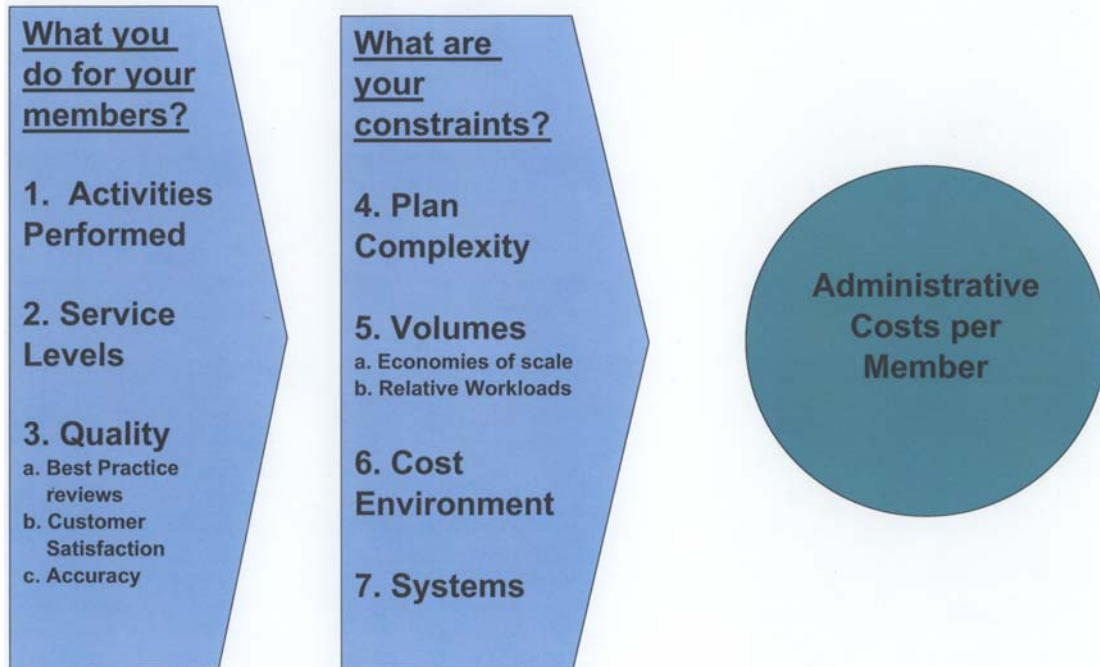
While we will not have their final report for another 45-60 days, their preliminary report is highly encouraging. Attached are the following pages from that preliminary document.

- Page 6 shows what it is they “track” and how they arrive at their total administrative cost numbers;
- Page 7 is a detailed breakdown of the “administrative activities” they scrutinize; and
- Page 9 is their preliminary analysis of our costs -- well below the average of other pension systems. (In truth, part of this is because our range of services are, in some instances, also below average.)

We are very pleased that the summary conclusion of CEM in this preliminary report is that “Your cost per active member and annuitant is lower than we would expect given your median service and complexity and lower volumes.”

When the final report is issued later this winter, we will be happy to share its results with this subcommittee, including our analysis of the responses we deem most important and value-added.

The focus of the analysis is on understanding and quantifying how the following 7 factors drive costs.



The heart of the analysis compares your costs, volumes, workloads and service levels to your peers for the following 14 administrative activities:

Comparable Activities:

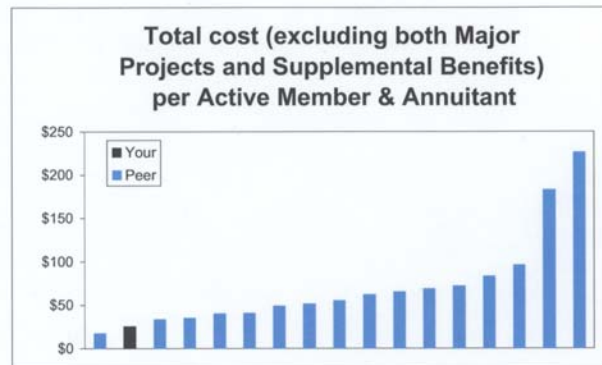
1. Paying Annuity Pensions
2. Annuity Pension Inceptions
3. Pension Estimates
4. Member Counseling
5. Member Telephone Calls
6. Communication
- 7a. Collections & Data Maintenance
- 7b. Other Employer Costs
8. Refunds/ Terminating Payments
9. Purchases/Transfer-in
10. Disability Pensions
11. Governance & Financial Control
12. Plan Policy & Design

**Non-Comparable activities
due to widely varying nature:**

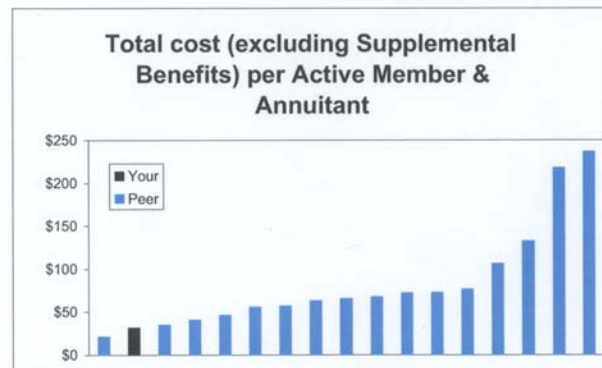
13. Supplemental Benefits
14. Major Projects

Your total cost of \$26 per active member and annuitant is below the peer median cost of \$55.

Your cost (excluding Major Projects and Supplemental Benefits) of \$26 is less than the peer median cost of \$55.



If we add back the cost of Major Projects, your cost of \$32 is less than the peer median cost of \$66.



Appendix D

Historical Impacts on IPERS' Unfunded Actuarial Liability (UAL)

Source: IPERS' Fiscal Year 2002 Actuarial Valuation Report

Impact Source	Net UAL Impacts FY 1996 – FY 2002 <i>(- \$X Decreases UAL; + \$X Increases UAL)</i>
Higher than Expected Investment Returns	-\$2,373 million
Expected UAL Pay-Down	-\$132 million
Unexpected Liability & Other Experience Changes	+\$872 million
Actuarial Assumption Changes	+\$728 million
Transfers to F.E.D. Reserve	+\$512 million
Benefit Enhancements	+\$487 million
<i>Total Net UAL Impact</i>	<i>+\$94 million</i>

How Does IPERS' Funded Status Compare with Other States' Public Pension Funds?

- The most comprehensive survey of U.S. public pension funds' financial status is the Wilshire Associates, Inc., annual survey. Wilshire's 2002 Report on State Retirement Systems covers **93 participating U.S. statewide public pension funds**.
- Wilshire's survey wisely neutralizes the effects of differing actuarial methods between the participating pension funds, by comparing each pension fund's simple market value of assets to their total liabilities. This survey methodology results in "funded status" numbers that do not match the "funded ratio" calculated by the various pension funds' actuaries, but which does provide a valid and "apples to apples" comparison between pension funds.
- Wilshire's 2002 Report reflects the following rankings:
 - ***IPERS ranks 40th of 93 funds in ratio of asset market value to total liabilities***
 - ***IPERS ranks 33rd of 93 funds in asset market value less total liabilities***
- While Wilshire's annual survey is the most current and comprehensive available, the time lags in public funds' asset and liability reporting, as well as differences in various public funds' actuarial valuation schedules (not all public funds conduct annual actuarial valuations), are reflected in the date range of survey participants' data as shown below. Wilshire's 2003 survey, expected publication August 2003, will reflect a higher percentage of 6/30/02 data.

<u>Valuation Date</u>	<u>% of Systems</u>
After 6/30/01	3%
6/30/01	42%
Between 6/30/00-6/30/01	12%
6/30/00	29%
Before 6/30/00	14%

Appendix E

IPERS' Response to Actuary's Report: Where Do We Go From Here?

IPERS' Proactive Stance – We Are Already Evaluating a Range of Options

IPERS' Staff and the Benefits Advisory Committee (BAC) in the summer of 2002 began contemplating options for future action *if and when* IPERS' actuarial consultant⁶ subsequently reported in her *Valuation Report for the Fiscal Year Ended June 30, 2002* that a future increase in contribution rates would be required to sustain IPERS' plan commitments. Given our actuary's findings in her Fiscal Year 2001 Valuation Report, together with the predictable negative impact of the continuing severe bear market on our investment returns, we anticipated that the actuary's Fiscal Year 2002 report *might* conclude a contribution rate increase was necessary.

We also began this process because we believed policy makers would expect from us both reasoned approaches to any options we eventually proposed and, as far as is possible, recommendations which enjoy broad consensus among employee and employer associations.

Because the Benefit Advisory Committee's membership effectively affords all major employer and employee groups a voice in benefit and plan design policy, we believed it was an appropriate place to begin this dialogue.

[For your information, a listing of the employer and employee groups represented in the BAC's membership is appended to the end of this document.]

What is Our Proposed Plan of Action?

It is very important to note that *neither* IPERS, nor IPERS' actuary, is recommending hasty or panic-driven reactions. In fact, our actuary emphasizes in her Valuation Report that:

The fact that the System is not in actuarial balance does not create an immediate funding concern for the System. System assets are sufficient to make future projected benefit payments for many years. The shortfall between assets and liabilities that is indicated by this year's valuation is a long term funding issue.⁷

Therefore, in the coming 10 to 12 months, we anticipate proceeding on two parallel tracks:

1. ***The first is what the actuary needs to do further.*** IPERS' actuary, in tandem with the IPERS' Investment Board's investment consultant (Wilshire Consultants Associates,

⁶ Patrice Beckham, of the Omaha Office of Milliman USA, Inc.

⁷ From the 2002 Valuation Report, **Section I: Executive Summary**, p.3. [Emphasis in the original.]

Inc.) will conduct in the latter half of Fiscal Year 2003 an in-depth and long term asset/liability study. This study, which is conducted every several years by IPERS and by all large defined benefit pension plans, will provide the actuary with the information she will need to give IPERS – by the summer of 2003 – a refined recommendation for future contribution rates.

Again, quoting from the actuary's 2002 Valuation Report:

...there is inadequate information available at this time to recommend new fixed contribution rates. Given the long term nature of this issue, there is adequate time to study the situation thoroughly and make the best possible decision...If a change is to be made to the contribution rates, it is in everyone's best interest for the new contribution rate structure to be adequate so rates will not have to be adjusted again in the short term....

IPERS plans to complete an Asset/Liability Study during fiscal year 2003. We recommend the long term funding issue and the determination of a new contribution rate structure be studied as an extension of that project. This approach will provide more sophisticated modeling techniques, based on statistical analysis and capital market assumptions which will assist in quantifying the shortfall of the current contribution rate under various scenarios. It will also reflect potential changes in the future demographics of the active membership and possible changes in plan design, which are also important parts of the System's long term funding.⁸

2. The second track relates to IPERS' efforts in conjunction with its Benefits Advisory Committee (BAC).

We will continue to focus on two primary areas in which our goal will be to reach broad-based consensus among employer and employee associations represented on the BAC:

a. What are the options in addition to contribution rate increases? And what are the pros and cons of these options?

- Proposing selected reductions in non-accrued benefits for existing, not yet retired, workers; and/or
- Developing a plan design for future hires which, by being less generous, would require little or no adjustment to existing contribution rates; and/or
- Recommending that the amount in the FED reserve account be reallocated to the full Trust Fund to partially offset the unfunded liability.

b. What are our options in proposing contribution rate increases themselves?

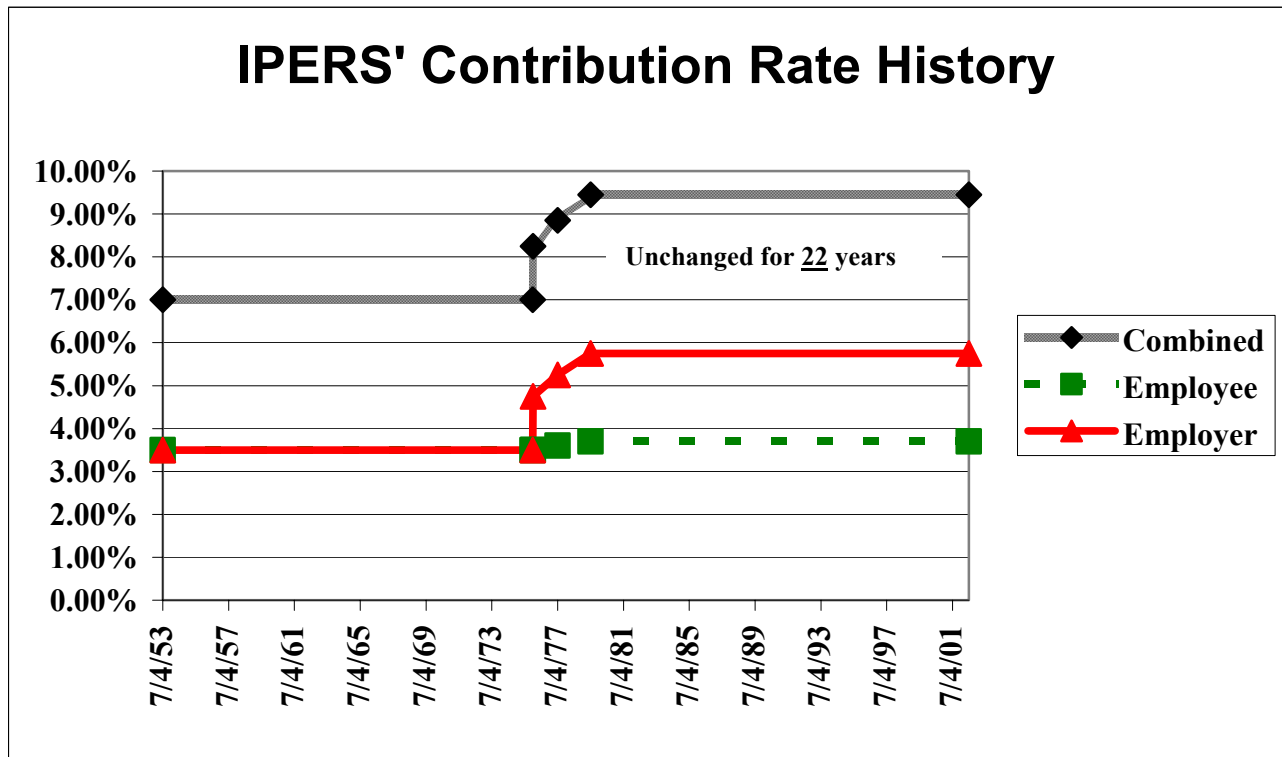
- Should any such increase be shared and, if so, how? (Current 60/40 sharing between employers and employees was attained in 1979.)

⁸ From the 2002 Valuation Report, **Section One: Executive Summary**, p. 4.

- Contribution rate increases could be phased in over time (probably a desirable option, given IPERS' 2,400 participating employers' budget pressures)
- Contribution rate increases could be a combination of a permanently higher base rate coupled with an “emergency levy” provision which would “kick in” whenever IPERS' sank below a statutorily recognized level (for example, a certain percentage of funded ratio).

Important Historical Context

In its 50-year history, IPERS has experienced contribution rate increases only once before: in a three year period beginning in 1976.

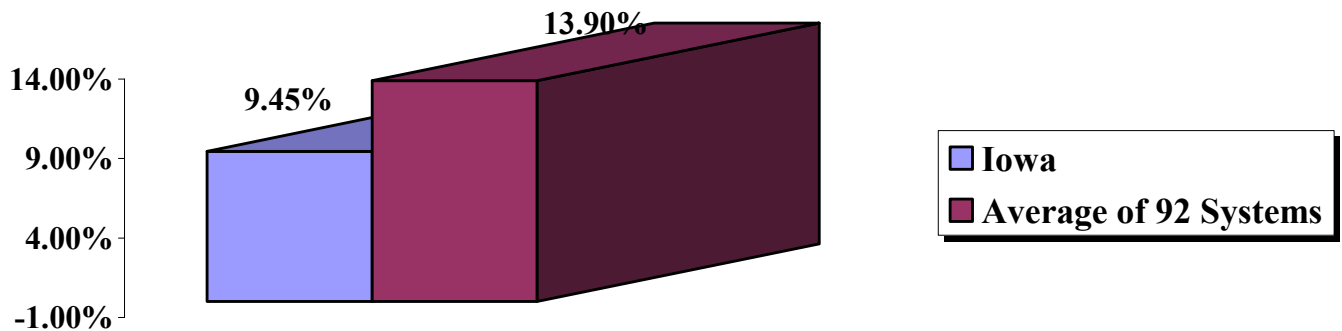


At this time, there was a coordinated effort to improve the retirement benefits available to IPERS' members while increasing contribution rates appropriately.

- Primary benefit enhancements involved:
 - Raising the covered wage ceiling modestly (it was but \$7,000 in 1975!)
 - Increasing the formula multiplier (upwards from a maximum of 40% — 1.334% per year of service — towards 50% — 1.667% per year of service)
 - Changing the wage years' of service, from “final five” to “highest average five years of service”

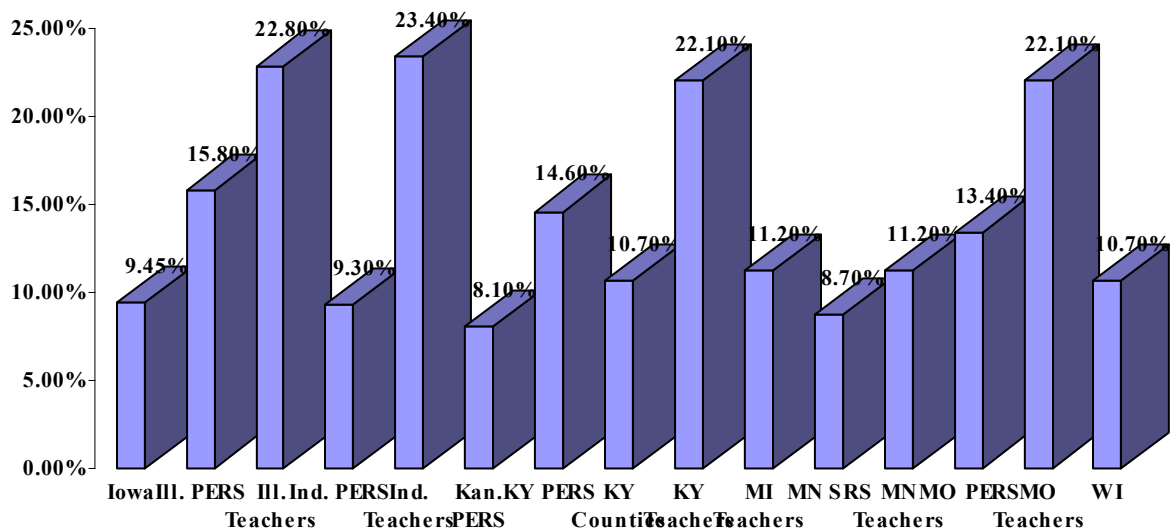
Over all fifty years of IPERS' existence, this retirement program has levied modest contribution rates paid by members and participating employers when compared to the broader universe of public retirement systems throughout the United States.

Iowa's Contribution Rate Compared to Average of 92 Public Systems



And even though Midwest states tend to have lower contribution rates than elsewhere in the country on average, IPERS is also a low-cost retirement program when compared to neighboring states.

Iowa Compared to Neighboring States



Conclusion

The need to raise contribution rates is a situation which IPERS has faced before and, in tandem with members, employers, and the General Assembly, successfully resolved. In keeping with our actuary's calm and reasoned approach, we will continue to examine all elements of possible resolution and anticipate having a sound recommendation (or set of them) ready for the Governor and General Assembly by the autumn or early winter of 2003.

MEMBERSHIP OF THE BENEFITS ADVISORY COMMITTEE

Employer Associations

Iowa Association of Counties, represented by Jim Maloney, Polk County Assessor
Iowa Association of Community College Trustees, represented by Dr. Gene Gardner
Iowa Association of School Boards, represented by Susan Olesen
Iowa League of Cities, represented by Andi Stewart
State of Iowa, represented by Mollie Anderson, Iowa Department of Personnel

Active, Vested and Retired Member Associations

American Federation of State, County and Municipal Employees, represented by Mike Campbell
Association of Chiefs of Police, represented by Mike Rolow, Chief of Police, Windsor Heights
Iowa State Education Association, represented by Lowell Dauenbaugh
IPERS' Improvement Association, represented by Janie Garr
Retired School Personnel Association, represented by Walt Galvin
Sheriffs and Deputy Sheriffs Association, represented by Bill Sage, Deputy Sheriff, Cass County
State Police Officers' Council, represented by Diane Reid

Employer/Member Associations

School Administrators of Iowa, represented by Dr. Gaylord Tryon

Public Member

Dr. Marc Haack, University of Iowa, elected by the other BAC members as per *Code of Iowa* provisions

Appendix F

A BRIEF OVERVIEW OF THE IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS) - YOUR "FAMILY PROTECTION" RETIREMENT PLAN

How IPERS works for you:

- Most non-temporary (six months or less) public employees in Iowa are covered by IPERS. [The most notable exceptions are members of the judiciary, the highway patrol, and police and fire personnel in cities and towns above 8,000.]
- Every pay period 9.45% of your reportable wages is contributed to IPERS on a pre-tax basis (3.7% is your contribution, 5.75% is your employer's contribution). IPERS tracks these contributions in accounts with your name on them.
- Every quarter of the year in which you have reportable wages is also credited to your account.
- At the time of your termination (voluntarily or otherwise) from public employment, or at the time of your retirement, IPERS calculates the value of your account and gives you the resultant payout. If you terminate employment prior to age 55 you can choose to either leave your money in IPERS until reaching age 55, at which time you can initiate a lifetime pension, or you can take a lump sum refund.

How IPERS Awards Value While You are a Member:

In addition to the steady accrual of account value (dollars and service credits), IPERS also provides you with:

- Protection in the unfortunate event that you should be disabled under federal social security standards. In this eventuality you would be eligible to begin IPERS' monthly distributions even if younger than 55 (the otherwise earliest age at which retirement distributions can begin).
- Protection for your family should you die before retirement: IPERS pays a death benefit to your named beneficiary (ies) in the case of your death. This can be either in a lump sum, or -- in the case of surviving spouses or other sole named beneficiaries -- as a lifetime annuity.
- The ability to continue your coverage under IPERS regardless of the nature of your public employment in Iowa (with the few exceptions noted above).
- The right to transfer into IPERS (through various purchases of service programs) credit for public service (federal and state) earned elsewhere, as well as previously refunded IPERS' service. The newest purchase program also allows members to purchase up to five years of service in the private sector as IPERS' eligible service time. Since July 2002 you can utilize dollars from other tax-deferred retirement plans (such as deferred compensation or individual retirement accounts) for some or all of your service purchase needs.
- Last, but not least, IPERS' defined benefit plan structure allows you to plan for your retirement needs with a definitely determinable benefit that will be yours regardless of market performance.

Benefits at Retirement

- IPERS' retirement benefit formula is relatively simple, and can be used to project years in advance your likely annual benefits upon retirement. Each year of service (1 through 30 years) is worth 2% of your highest average three years of covered salary. (Years of service 31 through 35 are worth an additional 1% per year.) The formula is: $[2\%] \times [\text{years of service}] \times [\text{average of highest three years covered salary}]$. (To illustrate: for a person with 20 years of service and an average hi-3 salary years of \$38,000, the formula would be $2\% \times 20 \times \$38,000$, or 40% of \$38,000, or \$15,200 annually as a pension. *Please note that this is the maximum pension payable. Depending upon the amounts you designate as being payable to others upon your death, as well as whether or not there is an reduction in this benefit for taking "early retirement," the actual benefit you receive could be less.*)

- IPERS has a range of options for members and their spouses (or other designated “contingent annuitants” which allow members to provide for their family following the member’s death. These options include lifetime payments to a designated contingent annuitant.
- IPERS also offers a cost-of-living supplemental payment. Through the Favorable Experience Dividend (FED) program IPERS has created a special reserve within its Trust Fund from which to pay all those retired since June 1990 an annual supplemental payment of up to 3% of the member’s yearly pension from IPERS (as long as sufficient reserves remain within the FED reserve account).

Benefits upon Termination from Service Prior to Retirement

Should a member be separated from public service prior to retirement (voluntarily or otherwise), he or she has the right to:

- Keep his or her money in IPERS until reaching age 55 (or a later date if the member so chooses) at which time lifetime monthly payments will begin. This option also includes the FED cost of living program referenced above. Another advantage of this option is that if the member returns to public employment at any time prior to retirement his or her account “picks up” where it was at the time of the original separation from employment.
- Request a refund from IPERS in which case IPERS pays the member (or assists the member in “rolling over” the value of his or her account to another tax-qualified vehicle) all of the member’s contributions plus accumulated interest and a portion of the employer’s contributions plus accumulated interest. (The exact amount is determined by a “service years” ratio. For example, someone with 15 years of service at termination would receive one-half, or 15/30, of the employer’s contributions and accrued interest.)

Requesting Assistance or Information from IPERS

- As our members, you are very important to us.
- We provide you with annual statements of your account value and accrued service credits.
- We also provide you with an employee handbook (updated every other year to include recent legislative changes to plan design) outlining in greater detail than this brochure your rights and privileges under IPERS.
- Should you wish to:
 - a) Change your beneficiary;
 - b) Update your address;
 - c) Request a second copy of your annual account statement;
 - d) Initiate an *estimate of your retirement benefits*; or
 - e) Have any other question...

Please feel free to call IPERS at 800/622-3849, or write us at IPERS; 7401 Register Drive; PO 9117; Des Moines, Iowa 50306-9117, or visit our WEB site at: www.IPERS.org.

Benefit Enhancements & Improvements in Plan Design

We are very proud of how far we have come over the last dozen years, with the knowledge and support of the Governor and the Legislature. But we are not satisfied to “rest on our laurels.” We are always looking for ideas and ways to improve.

If you have suggestions for where IPERS should “go” in the future, or as to how we could improve the services we offer our members, please write me at the above address, or through my e-mail address: Greg.Cusack@ipers.org.

Greg Cusack
Chief Benefits Officer
Iowa Public Employees’ Retirement System